

AR46



WAJAX LIMITED

ANNUAL REPORT 1974

Corporate Directory

DIRECTORS

*IAN B. CAMPBELL, C.A.
*R. W. CHORLTON
GOWAN T. GUEST
DEREK A. HANSON, Q.C.
F. G. HARVEY
THOMAS LOHNER, Dipl. Ing.
PETER PAUL SAUNDERS
*D. C. H. STANLEY
*D. L. TORREY
*J. W. WALKER, O.B.E., Q.C.
*Member of the Audit Committee

OFFICERS

J. W. WALKER, O.B.E., Q.C.
R. W. CHORLTON
W. F. BARR
IAN B. CAMPBELL, C.A.
F. G. HARVEY
S. M. PETRUSEWICZ
R. G. WILLOX
P. G. SIMS, C.A.

Chairman of the Board
President and Chief Executive Officer
Vice President
Vice President and Chief Financial Officer
Vice President and Secretary
Vice President
Vice President
Treasurer

BANKERS:

Bank of Montreal • Bank of British Columbia •
Royal Bank of Canada • Seattle-First National Bank

REGISTRARS:

National Trust Company Limited

TRANSFER AGENT:

The Royal Trust Company

LEGAL COUNSEL:

Laing, Weldon, Courtois, Clarkson, Parsons and Tétrault

AUDITORS:

Touche Ross & Co.

STOCK LISTINGS:

The Montreal Stock Exchange • The Toronto Stock Exchange

HEAD OFFICE:

2197 Riverside Drive, Ottawa, Ontario K1H 7X3



Financial Highlights

Operations (thousands of dollars)

	1974	1973
Gross Revenue	\$83,965	\$62,426
Net Earnings	3,303	1,950

Financial Position (thousands of dollars)

Working Capital	14,699	12,692
Long-term Debt	4,500	4,500
Shareholders' Equity	13,858	11,520

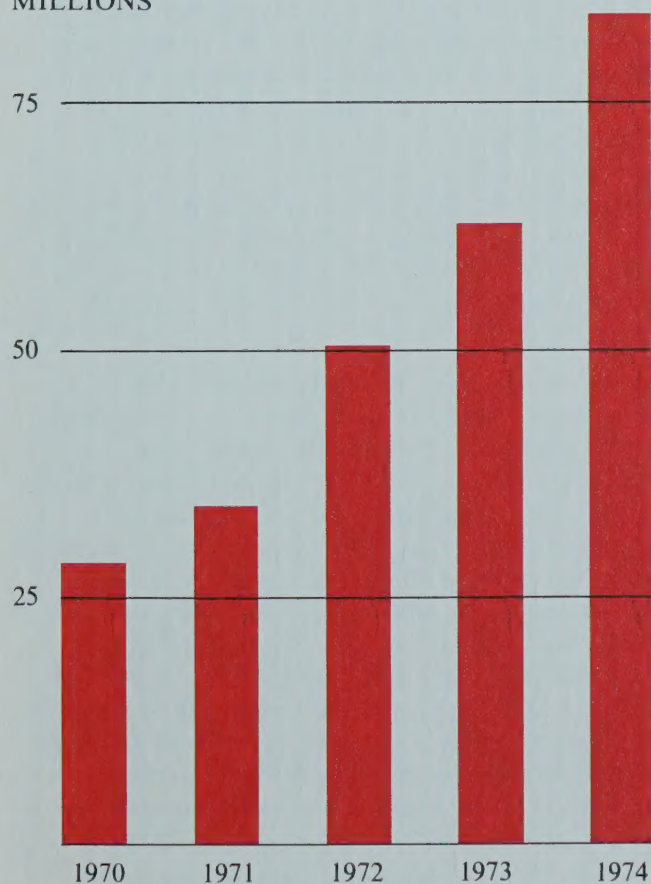
Per Common Share

Net Earnings	\$2.36	\$1.40
*Dividends	.65	.50
Shareholders' Equity	9.89	8.23

*Note: The rate shown is the basic dividend applicable to the Class A Shares.

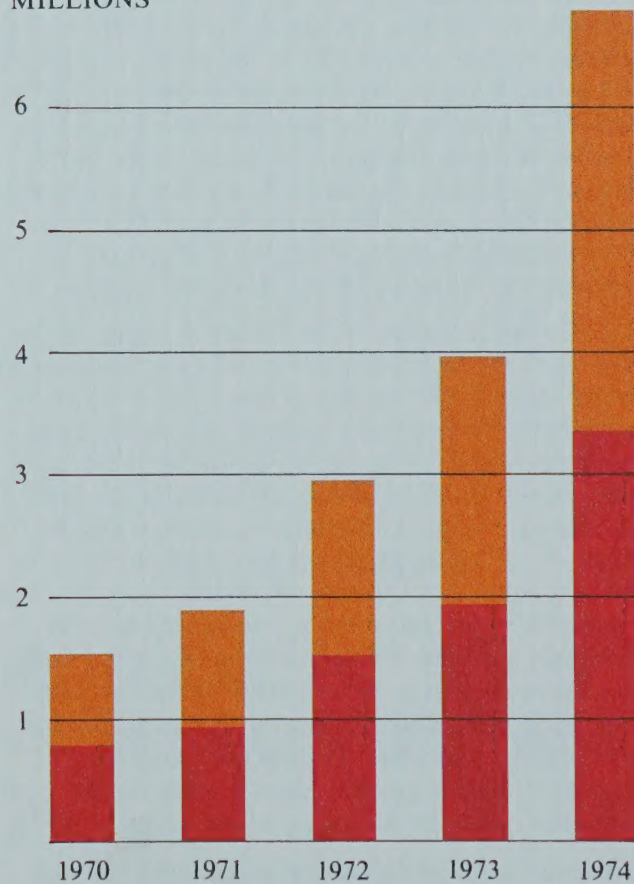
Gross Revenue

MILLIONS



Earnings Before & After Income Taxes

MILLIONS



Report To The Shareholders



Despite the numerous uncertainties and problems encountered during the year, 1974 turned out to be an exceedingly good one for your Company. Gross revenues rose by 34.5% over the previous year to reach \$83,965,000, while net profit at \$3,303,000 was up by 69.3%. Earnings per share increased 68.6% from \$1.40 to \$2.36. Unless the deterioration of the international and Canadian economies becomes more serious or prolonged than at present contemplated, we are planning for some further improvement of earnings in 1975.

The substantial growth of gross revenues and earnings reflects a vigorous and sustained demand for most of the products sold by your Company throughout Canada. Of particular note has been the strong revenue growth of our distribution business in Eastern Canada, particularly in Quebec and the Maritime Provinces. Volume continued at a high level in Western Canada where some softness in British Columbia was more than offset by improvement in Manitoba and Saskatchewan. Waterous GM Diesel maintained its pattern of growth in Alberta, the Yukon and Northwest Territories.

A noteworthy aspect of the financial results is the improvement in pre-tax profitability as a percentage of the sales dollar which has reached 8.1% as compared to 6.3% last year. Several factors have contributed to this result, but chief was the success of our Quebec distribution operations which in the current year made contributions comparable to those of our other profit centres. As noted in previous reports, our Quebec operations were less than profitable in the late 1960's, continuing at best marginal until late 1973; from that point on such operations began to benefit from the corporate re-organization which followed the acquisition of Smith Bros. and Mine Equipment Company together with the general improvement in the economy of the Province.

Although general demand strengthened through

the year and the order book at year's end amounts to \$18½ million, many problems had to be confronted, chief of which were aberrations prompted by our movement into double digit inflation, and the disruption of orderly delivery procedures stemming from component shortages. Lengthened and uncertain delivery times were the worst in the Company's history and unpredictably high short term interest costs, Federal budget uncertainties and labour unrest rounded out a rather complicated year.

As we neared the end of the year we began to see amelioration of some of the difficulties — deliveries were slowly improving and interest rates began to drop from their record highs. Both of these trends should be of significant assistance in 1975. In addition, the November 18 Federal Canadian budget contained certain provisions of significance to your Company's spheres of business interest, notably:

- the extension, without time limit, of the accelerated depreciation provision which permits a two-year write off in respect of production machinery and equipment.
- the corporate tax rate reduction to 40% for manufacturing and processing industries.
- the removal of Federal sales tax from construction and transportation equipment.

On the negative side, short term, the 12 month 10% surtax applicable chiefly to service industries, which was made retroactive to May 1, had the effect of reducing earnings in 1974 by eleven cents per share. The surtax is scheduled to end on April 30, 1975. Of greater concern is the decision to increase the tax rate of resource industries to 50% and the disallowance of certain royalties as a deduction in determining Federal income taxes. These measures, together with other tax measures affecting resource industries, could have a retarding effect upon the growth of this vital sector of our economy.

Of all issues affecting corporate results, none received wider attention than the effect of inflation on both the amount and quality of earnings. Although Canada has been fortunate to have one of the lower rates of inflation in 1974, nevertheless the present double digit trend is such that we have had to give a great deal of thought as to its effect on our earnings. As reported at our 1974 shareholders' meeting, it is our view that although our earnings reflect inflation in that they are expressed in 1974 dollar terms, we do not believe the results include any significant component of "windfall" or inventory profits. Further, since the Company's investment in fixed assets is modest in comparison with current assets, any conversion to a form of current cost valuation for fixed assets would not

alter the earnings picture significantly. Your Company proposes to await the establishment of specific guidelines by the Canadian Institute of Chartered Accountants before embarking upon any restructuring of its accounts to reflect inflationary inputs.

In the context of the Company's operations, our problem with inflation has not consisted of artificial profit adjustment, but of marketing our products at prices which fully reflect the inflated costs of current purchases and operations, at the same time maintaining a satisfactory profit on the sales dollar.

In order to maintain a pattern of profitable growth, much stress has to be laid on planning for the development of new inter-related areas of business, provision of new branch facilities, and re-organization of the marketing framework to meet the ever changing demands of the market place. Much of this progress is outlined in the Operations section of our report, beginning on page 6, but the following 1974 developments are noteworthy:

- relocation of the Calgary operations of Waterous GM Diesel Limited into a new 35,000 sq. ft. leasehold building in an excellent commercial area. This move will enable Waterous to maintain appropriate parts and repair service for the ever-increasing population of Detroit Diesel powered equipment in southern Alberta.
- provision of new premises for Wajax Industries Limited in Calgary and in Seven Islands.
- contracting for a substantial new facility in Toronto for the Mill Rubber manufacturing division of Wajax Industries, to be occupied in 1975.

The charts accompanying this report on page 14 give a clear indication of the nature of the inter-related diversification of your Company's business. Despite the very great increase in total volume, percentage of gross revenue as between the various sales categories remained relatively constant. So far as geographical diversification is concerned, it is of interest to note that within Canada gross revenues were fairly equally divided between the four major trading areas with the greatest percentage year-to-year growth developing in Quebec and the Maritime Provinces. In major market areas mining, petroleum and gas continued to be the largest market, accounting for 27.8% of our gross revenue, with four other major markets closely competing for their share of the remainder.

As mentioned in the opening paragraph of this report, management is cautiously optimistic about the financial prospects for 1975, notwithstanding the current nervous state of the world economy. Our optimism is related to our belief that the Company's product range and geographical coverage

places it in a strong position to take part in the Canadian growth markets of the 1970's and 1980's — mining and energy, forest industries, transportation, utilities and steel. We believe we stand to gain from the drive for increased energy sources, raw materials, improved transportation, expansion of the steel industry — all market areas in which your Company operates in a relatively substantial manner.

Operational management was strengthened during the year by the following appointments:

- Mr. R. G. Willox as President of Smith Bros. Motor Bodies Limited, the Company's manufacturing unit for aerial devices and hydraulic truck cranes. Mr. Willox will, in addition, continue to coordinate the management of the forest fire control manufacturing activities in Canada and the United States and the recently expanded Mine Rubber & Milling Division in Toronto.
- Mr. S. M. Petruszewicz as President of Niedner Limited. This appointment reflects the importance attached to the technological advancement of our Canadian hose manufacturing operation.
- Mr. J. A. Crawford as Vice President of the Eastern Distribution Region of Wajax Industries Limited.

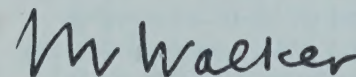
The Company's Annual General Meeting will be held in the Royal York Hotel, Toronto, on Wednesday, April 30th, 1975 at 11:00 a.m., in accordance with the formal notice enclosed. At a Special General Meeting to be held concurrently with the Annual Meeting, shareholders will be asked to approve a By-Law increasing the number of Directors from 10 to 11, as detailed in the accompanying information circular. It is proposed to nominate Mr. Donald R. Sobey, a prominent Nova Scotia businessman, to fill the vacancy thus created.

The relative success of a group such as Wajax must belong in large measure to the dedicated teamwork of employees at all levels, and we have full confidence that this strong team will be able to maintain Wajax' record of achievement in the difficult year ahead.

On behalf of the Board,

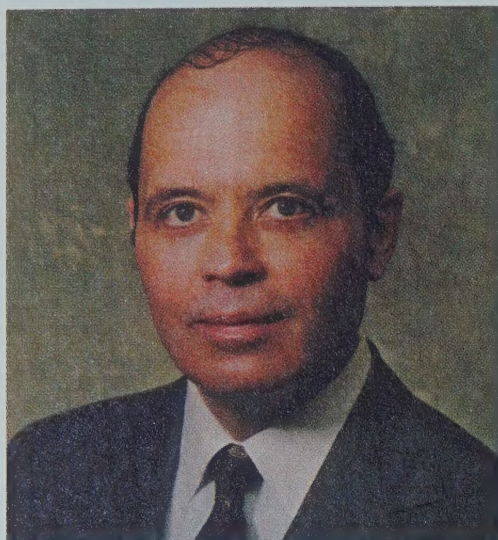


R. W. Chorlton, President and Chief Executive Officer.



J. W. Walker, Chairman of the Board.

Financial Review



Trends

The financial highlights shown on the first page of this report indicate a consistently strong trend in your Company's operations and financial position over the past five years. This period of uninterrupted progress has shown:

gross revenues	- up 230% or 27% compounded annually
net earnings	- up 376% or 36.5% compounded annually
working capital	- up 136% or 18.5% compounded annually
shareholders' equity	- up 133% or 18% compounded annually
dividends declared	- up 398% or 38% compounded annually

While these figures graphically reflect the growing strength and progress of your Company, management views the increase in pre-tax profit from 5.3% of gross income in 1970 to 8.1% in 1974 as possibly the most significant of trends.

1974 Operations

1974 was an extraordinarily challenging year from a financial viewpoint. The largest increase in gross revenues in the Company's history was financed without recourse to additional equity or term debt; the average rate of interest on bank borrowings rose 42% over the previous year; long lead delivery times and spiralling prices from suppliers placed us in extremely difficult inventory positions, partic-

ularly in the manufacturing units; tight money conditions forced most suppliers to curtail extended payment terms and we were continually forced to protect ourselves from the effects of price escalation to us on major equipment orders from customers.

From an operations viewpoint, the significant factor was the \$21,500,000 increase in gross revenue, up 34.5% from 1973, and a rise of approximately one and a quarter percentage points in gross margins. Our analysis indicates that in certain trading lines there was some element of inventory profit, but that this was partially offset by reduced gross margins on several major orders accepted by Smith Bros. early in 1974 and late 1973. The rise of gross margins resulted primarily from increased sales and improved gross profits of products manufactured or assembled by your Company's subsidiaries.

After tax earnings were reduced by \$157,000 or 11¢ per share as a result of the 10% Federal Corporate Income Tax surtax applicable to the period subsequent to May 1, 1974. The application of this surtax was only confirmed in the Federal budget brought down on November 18, and accordingly most of it is reflected as a charge to earnings in the last quarter of the year.

Total remuneration to all employees increased by one third over the previous year, and totalled \$10,100,000. While all other expenses also increased, greater operating efficiency and higher utilization of facilities enabled us to conserve a greater part of our gross profits, resulting in the increase in pre-tax profits as a percentage of gross revenue from 6.3% to 8.1%.

Balance Sheet

The consolidated balance sheet at December 31, 1974 shows a healthy financial position and reflects, with credit, the organizational structure of the companies and the efforts and experience of the divisional managements.

Working capital is up \$2,000,000 to the equivalent of \$10.49 per share and shareholders' equity stands at \$13,858,000 or \$9.89 per share. We continue to enjoy excellent relationships with our bankers, and our lines of credit appear adequate at this time.

Accounts receivable were up \$3,800,000 over the previous year, the increase being more than accounted for by the substantial increase in sales recorded in the last three months of 1974. During the year there was a continued improvement in

the quality of our accounts, brought about not only because growth has been primarily in areas other than the relatively high risk field of small construction contractors, but also by improved credit and collection techniques. Bad debts experience during the year was nominal and, despite tight money conditions, the overall collection cycle has improved significantly.

Inventories, the true strength or weakness of the company from a financial viewpoint, but the most difficult asset to relate to our overall business from year to year, appear to be in good balance. Tight inventory controls, closely supervised purchasing policies, and taking advantage of the flexibility provided by our national structure, have enabled us to restrict the growth of inventories to about the same level as the estimated inflation factor in 1974, despite a sharp increase in sales.

Parts account for approximately 30% of sales and year end inventories. The reasonably fast turnover (slightly less than two times in 1974), minimizes the effect of either inflation or deflation, while constant attention is given to the return of obsolete parts to suppliers and a consistently conservative valuation approach is used on slower moving items.

New equipment inventories, both procured and manufactured within the group, account for approximately 31% of the year end inventories. It is not practicable to relate these inventories to sales as their size and content is a factor of time. A very substantial portion of these units is, at any given moment, in our inventories against specific customer orders, and is usually delivered within three or four weeks. Only in the high turnover lines do we maintain a stock of standard units for immediate delivery.

Raw materials and work in process of our manufacturing subsidiaries account for approximately 20% of total inventories, and our investment in rental fleet and rental option units is approximately 14%. Rental fleet is primarily made up of lift trucks, climbing cranes and small construction equipment, while rental option includes some major items of mining and woodlands equipment.

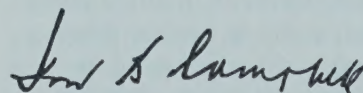
It is corporate policy to value all units in the rental and rental option categories on the assumption they are currently for sale. For many years, proven standard inventory write down policies have been applied annually, with additional write-offs being made in individual cases if deemed necessary, to ensure ready marketability at normal profit ratios.

Generally speaking it continues to be the Company's policy to lease rather than own the building space required to carry out its operations. We firmly believe that available funds should be devoted to the operating requirements of our sales and manufacturing units and that the relatively insignificant investment in fixed assets gives us a flexibility to respond to changing market and economic conditions we would not otherwise enjoy.

In 1974 however, the Company applied approximately \$1,300,000 of its funds to the purchase of fixed assets and the improvement of leased premises. This was felt necessary in order to increase our efficiency and market coverage at current and projected levels of activity. Of this amount, \$600,000 was used for major equipment purchases and general improvements to our manufacturing facilities at the Smith Bros. Motor Bodies plant and at our 60% owned hose manufacturing subsidiary, Niedner Limited. In addition, improvements and enlargement were made to various facilities, particularly those related to customer service, of Wajax Industries and Waterous GM Diesel Limited. No major capital expenditures are presently budgeted for 1975.

Dividends

As indicated in the ten year summary, per share dividends paid in 1974 were 65¢, making that year the sixth consecutive year of dividend increases. In October 1974 the quarterly dividend was increased to 20¢, or 80¢ annually.



Ian B. Campbell,
Vice President and
Chief Financial Officer.

Operations



Mine Equipment

Shortages of components and raw materials were problems faced by all our suppliers in 1974. However through their strenuous efforts and support we were able to show a very sharp increase in sales of mining and milling equipment. Record world metal prices, especially for copper, zinc and lead, and the consequent increased output of Canadian mines, created a strong demand for underground mining products, especially in the field of Eimco trucks and load-haul dump units. In spite of component delivery problems, our supplier of this equipment gave us strong support, as a result of which we were able to capture an increased portion of this market, doubling our 1973 sales.

Demand for the more traditional mining equipment lines was also strong, particularly in the broad range of mine drainage and slurry pumps marketed by Wajax. In open pit mining, further sales of the Marathon LeTourneau L700 loader were

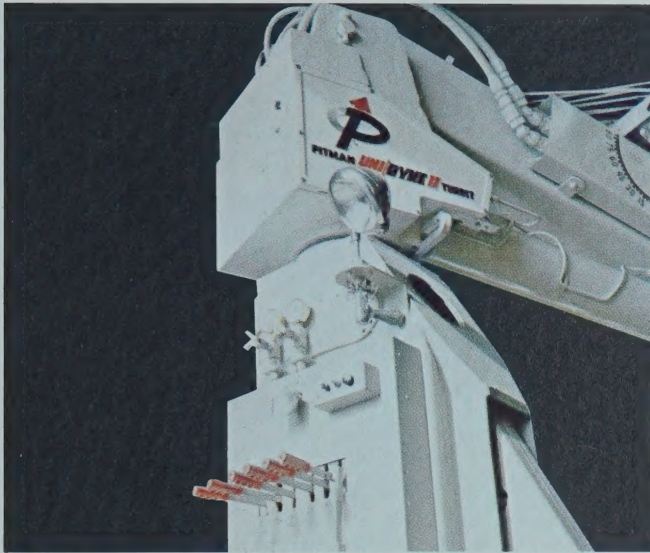


made to producers in the Quebec-Labrador iron range following the introduction of the first unit into this area in 1973. These huge machines now handle copper ore, limestone, coal, tar sands and overburden from stripping operations, as well as iron ore, in mining operations across Canada.

Significant growth occurred in the sale of Trelleborg rubber products, especially mill linings, chute linings and screens. This year saw the first Canadian installation of a rubber liner in a 200 ton capacity rock haulage truck. A resurgence of production from Saskatchewan mines, as a result of increased world demand for potash, led to the extension of underground conveyor systems and a five-fold growth in Fenaplast belting sales.

Materials Handling

Sustained demand for materials handling equipment during the year was to some extent offset by escalating prices and extended deliveries. Nevertheless, Hyster were able to deliver a record volume of equipment, and important market successes were recorded, particularly in stevedoring, containerization and steel. 37 units were delivered to a Vancouver Island stevedoring company, while another British Columbia operator has increased his fleet to include 22 large Hyster machines. Delivery of six container handling fork trucks in Nova Scotia and two straddle units in New Brunswick constituted something of a Maritime break-



through, equally significant penetration of steel mill operations being evidenced by three 35 ton straddle carriers sold in Ontario.

Considerable specialization has been adopted in marketing this product line, which is now handled out of premises separate from our other operations both in Toronto and Vancouver. 1974 saw more realistic cost appraisal of materials handling rentals, spin-off of some marginal rental operations, and re-direction of the related effort. Introduction of the Hyster Rackloader, a sophisticated electric narrow-aisle stacker, will assist our specialized sales force in developing automated warehouse systems.

Utilities

Nowhere were material shortages more evident than in our manufacturing operations, particularly Smith Bros. Motor Bodies Limited whose product principally serves the hydro and telephone utilities. Nevertheless, in spite of delays which made manpower planning and scheduling very difficult, this unit achieved a substantial gain in productivity, sales volume increasing by more than 50%.

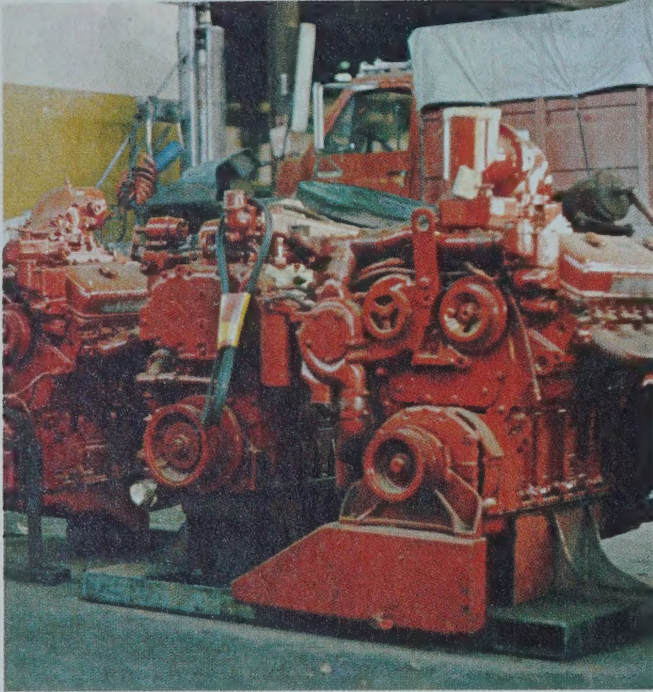
Penetration of utilities markets continued on a broad front. In addition to substantial sales of the established Pitman cranes and aerial devices, a new smaller ML series Hotstik was introduced. This medium-range insulated one-man articulated aerial bucket, with significant Canadian design



input as well as manufacture, was an instant success with sales of close to one hundred units in the first year. Considerable export volume developed over a broad product range, and further potential is seen in Latin American and Caribbean markets. The Company also took on an interesting new JLG line of self-propelled man lifts for overhead maintenance.

Construction Equipment

Construction equipment experienced a year of steady progress, with few dramatic highlights. The Ditch Witch line of specialized ditching and trenching equipment, which is operated separately from our other construction lines, made a significant contribution, while the establishment of a dealer network improved the market penetration of Master space heating and concrete finishing equipment. SKB auxiliary truck cranes also began to have a real impact on the market, with sales



doubled over 1973. In the West, where Wajax enjoys a dominant position in the construction climbing crane market, the largest Linden tower crane in Canada was installed.

Diesel Engines

Waterous GM Diesel Limited, marketing Detroit Diesel engines and Allison power shift transmissions throughout Alberta, the Yukon and part of the Northwest Territories, enjoyed a substantial increase in volume. Some falling off in oil exploration activity was more than offset by increased applications in truck transport power and elsewhere. In particular, the Allison power shift transmission in conjunction with both gasoline and diesel power gained considerable acceptance, especially in public utility service. The decision to occupy new and expanded premises in Calgary has been vindicated by an increase in service business fully utilizing the new facility from the outset. Waterous is also represented in Fort McMurray, backing up the numerous Detroit Diesel and Allison units participating in the Syncrude project.



Forest Fire Control

Forest Fire Fighting and Woodlands operations acquired new impetus from products of our own manufacture and from specialized imported machinery. The expanded facilities of Niedner Limited, now equipped to produce the highest quality lined and unlined synthetic fire hose in addition to the cheaper linen variety, enabled us to meet the widely varying demands of this specialized field. Forest fire fighters battling the devastating summer conflagrations around Dryden, Ontario relied heavily upon Wajax equipment, and our staff were on 24 hours call for an emergency period of 22 days. Significant new fire equipment export business was generated in Dakar, Senegal, Algeria and Argentina, while parts and replacement orders began to come in for the large body of equipment supplied to Chile in 1973.

Woodlands

In last year's report we spoke of the market potential of the specialized large handling equipment being introduced for Woodlands operations, and in spite of the Western lumber collapse late in the year, these expectations were realized in large measure, with Barko loader sales more than doubled over 1973. The sale of three Marathon LeTourneau tree crushers for the Maritime provinces represents a welcome broadening of our geographical coverage in this field.

Consolidated Statement of Earnings

For the Year Ended December 31

	1974	1973
Gross revenue	\$83,964,832	\$62,426,125
Earnings before the undernoted items	\$ 7,192,798	\$ 4,271,655
Interest on long term debt	399,850	343,693
Earnings before income taxes	6,792,948	3,927,962
Income taxes	3,490,071	1,977,500
Net earnings for the year - Note 2	\$ 3,302,877	\$ 1,950,462
Earnings per Class A and Class B share based on the weighted average number of shares outstanding	\$2.36	\$1.40

Consolidated Statement of Retained Earnings

For the Year Ended December 31

	1974	1973
Retained earnings at beginning of year	\$ 6,210,410	\$ 5,026,748
Net earnings for the year	3,302,877	1,950,462
	9,513,287	6,977,210
Dividends - Note 3	980,972	766,800
Retained earnings at end of year	\$ 8,532,315	\$ 6,210,410

Consolidated Balance Sheet as at December 31, 1974

WAJAX
(Incorporated Under the

ASSETS		1974	1973
Current			
Cash		\$ 49,410	\$ 75,422
Accounts and notes receivable		14,678,582	10,899,108
Inventories - at the lower of cost or net realizable value		23,710,177	19,794,058
Prepaid expenses		164,495	97,923
Deferred income taxes - Note 4		481,250	204,334
		39,083,914	31,070,845
Instalment and other receivables		141,670	248,443
Fixed - at cost			
Land, buildings, equipment and leasehold improvements		5,244,443	4,261,645
Less accumulated depreciation and amortization		2,603,594	2,350,255
		2,640,849	1,911,390
Other			
Deferred income taxes		8,302	111,677
Unamortized debenture issue expense		104,915	110,915
Excess of cost of shares of subsidiaries over net book value of assets acquired		1,255,313	1,255,313
		1,368,530	1,477,905
		\$43,234,963	\$34,708,583

On behalf of the Board:

AUDITORS'

R. W. Charlton
Director

The Shareholders
Wajax Limited

We have examined the consolidated balance sheet of Wajax Limited and subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

L. S. Campbell
Director

LIMITED

(Canada Corporations Act)

LIABILITIES

	1974	1973
Current		
Bank indebtedness - secured	\$ 8,037,892	\$ 5,940,715
Accounts payable and accrued liabilities	11,600,016	8,245,858
Notes payable within one year - Note 5	2,055,862	2,785,624
Income and other taxes payable	2,411,209	1,196,745
Dividend payable January 31, 1975	280,329	209,932
	24,385,308	18,378,874
Notes payable - Note 5	215,680	127,681
Long term debt - Note 6	4,500,000	4,500,000
Deferred income	145,215	71,607
Minority interest	130,353	109,984
SHAREHOLDERS' EQUITY		
Capital stock - Note 3		
Common shares without nominal or par value		
	Authorized	Issued
Class A	4,000,000	1,231,254
Class B	2,000,000	170,392
	<u>6,000,000</u>	<u>1,401,646</u>
	5,326,092	5,310,027
Retained earnings	8,532,315	6,210,410
	13,858,407	11,520,437
	\$43,234,963	\$34,708,583

REPORT

In our opinion these consolidated financial statements present fairly the financial position of the company and its subsidiaries as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ottawa, Ontario
February 24, 1975

Douglas Ross & Co.
Chartered Accountants

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31

	1974	1973
Source of funds		
From operations		
Net earnings for the year	\$ 3,302,877	\$ 1,950,462
Items not requiring an outlay of funds		
Depreciation and amortization	335,513	246,745
Deferred income taxes	103,375	58,506
Other	26,369	11,740
	3,768,134	2,267,453
Proceeds from sale of fixed assets	232,966	18,481
Decrease in instalment and other receivables	106,773	(30,835)
Increase in notes payable	87,999	(1,765)
Increase in deferred income	73,608	(30,275)
Increase in long term debt	-	1,725,000
Issue of shares during the year	16,065	75,735
Working capital at date of acquisition of subsidiaries acquired during the year	-	159,096
	4,285,545	4,182,890
Application of funds		
Purchase of fixed assets	1,297,938	595,000
Debenture issue expense	-	116,753
Purchase of shares of subsidiaries	-	185,911
Dividends	980,972	766,800
	2,278,910	1,664,464
Increase in working capital	\$ 2,006,635	\$ 2,518,426
Working capital at end of year	\$14,698,606	\$12,691,971

Notes to the Consolidated Financial Statements

December 31, 1974

1. Principles of Consolidation

These consolidated financial statements include the accounts of Wajax Limited and all its subsidiary companies.

Assets and liabilities in foreign currencies have been converted to Canadian dollars at the rates prevailing at December 31, 1974.

2. Statutory Information

The following charges have been included in determining earnings for the year:

	1974	1973
Depreciation and amortization	\$335,513	\$246,745
Remuneration of directors and officers		
Fees of 11 directors (10 in 1973), paid by Wajax Limited	35,700	39,600
Remuneration of 8 officers (8 in 1973), of which 4 were directors, paid by Wajax Industries Limited	435,534	412,711

3. Capital Stock

The Class A and Class B shares are convertible to shares of the other class on a one for one basis. The rights of the Class A and Class B shares are identical except that dividends on Class B shares may be paid out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand, provided that a dividend is paid on the Class A shares in an amount equal to the dividend on the Class B shares plus any tax applicable thereto.

Changes in capital stock during the year were as follows:

	<u>Class A</u>	<u>Class B</u>
Common shares outstanding at beginning of year	1,243,714	155,832
Options exercised during the year	2,100	-
Class A shares converted to Class B shares	(16,410)	16,410
Class B shares converted to Class A shares	<u>1,850</u>	<u>(1,850)</u>
Common shares outstanding at end of year	<u>1,231,254</u>	<u>170,392</u>

Dividends declared during the year were as follows:

Class A shares	\$866,503
Class B shares	97,299
Tax applicable to dividends on Class B shares	<u>17,170</u>
	<u>\$980,972</u>

Options, which expire five years after date of grant, are outstanding to purchase 16,900 of the authorized but unissued shares of the company as follows:

	<u>To Directors and Officers</u>	<u>To Employees</u>
Options granted August 10, 1972 at \$9.00 per share	5,800	10,100
Options granted August 15, 1973 at \$10.02 per share	<u> </u>	<u>1,000</u>
Options outstanding as at December 31, 1974	<u>5,800</u>	<u>11,100</u>

4. Deferred Income Taxes

Deferred income taxes included in current assets arise from the elimination from consolidated earnings of profits upon inter-company sales, and from equipment warranty and other provisions reflected in the accounts which are not deductible for income tax purposes until the expenses are actually incurred.

5. Notes Payable

Represents notes payable to suppliers and financial institutions of which \$1,285,716 (\$2,092,628 in 1973) is secured by inventories.

6. Long Term Debt

\$4,500,000, 8¾% Secured sinking fund debentures, Series A, payable March 1, 1993. Annual sinking fund payments, sufficient to retire \$250,000 of the principal amount of these debentures in each of the years 1979 to 1992, commence in 1979. The debentures are redeemable at a reducing premium if redeemed for other than sinking fund purposes.

7. Contingent Liability

At December 31, 1974 the companies were contingently liable for approximately \$800,000 (\$900,00 in 1973) as guarantors of discounted notes secured by conditional sales contracts.

8. Commitments

The company and its subsidiaries have entered into long term leases of varying terms to 1996, for which the maximum net annual rental is \$650,000 (\$600,000 in 1973).

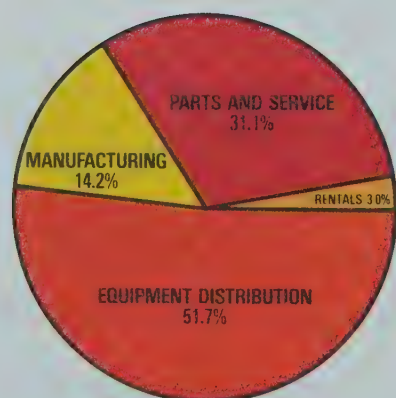
9. Employees' Pension Plan

The latest triennial actuarial review of the employees' pension plan as at December 31, 1972 established an unfunded liability of approximately \$450,000 which is being funded over eighteen years by annual payments, including interest, of \$37,200.

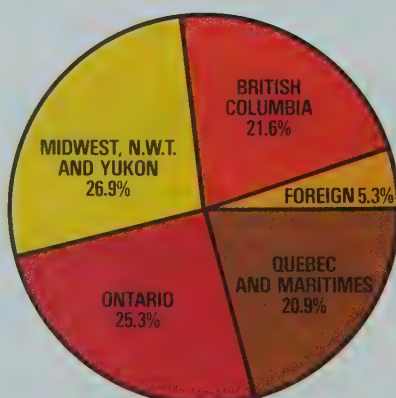
Ten Year Summary

Years ended December 31

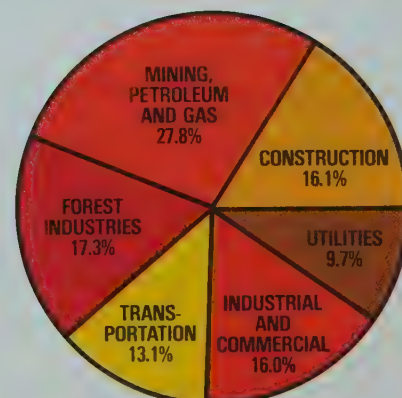
	1974	1973	1972	1971	1970	1969
Gross Revenue	\$83,965,000	62,426,000	50,327,000	33,997,000	27,810,000	25,427,000
Pre-tax Earnings	6,793,000	3,928,000	2,920,000	1,863,000	1,462,000	1,484,000
After Tax Earnings	3,303,000	1,950,000	1,518,000	910,000	769,000	693,000
Income Taxes	3,490,000	1,978,000	1,402,000	953,000	693,000	791,000
Dividends Declared	981,000	767,000	435,000	272,000	222,000	197,000
Total Assets	43,235,000	34,709,000	27,092,000	23,434,000	17,311,000	15,779,000
Working Capital	14,699,000	12,692,000	10,174,000	8,115,000	6,424,000	6,235,000
Shareholders' Equity	13,858,000	11,520,000	10,261,000	7,578,000	6,481,000	5,935,000
Pre-tax Earnings-as a % of (Note 5):						
Total Assets	15.7	11.3	10.8	8.0	8.4	
Shareholders' Equity	53.5	36.1	32.7	26.5	23.6	2
Gross Revenue	8.1	6.3	5.8	5.5	5.3	
Shares Outstanding (Note 2)	1,401,646	1,399,546	1,390,746	1,167,468	1,111,268	1,111,268
Per Share:						
-Earnings (Note 3)						
Pre-tax	\$ 4.85	\$2.82	\$2.27	\$1.65	\$1.32	\$1
After Tax	\$ 2.36	1.40	1.18	.81	.69	
-Dividends Paid	\$ 0.65	0.50	0.2875	.225	.20	
-Equity	\$ 9.89	8.23	7.38	6.49	5.83	5
-Working Capital	\$10.49	9.07	7.32	6.95	5.78	5
Number of Shareholders	1,485	1,447	1,152	815	873	8
Price Range of Shares (Note 2)	\$12-8¾	\$14¼-9¼	\$12-6¾	\$7¾-4½	\$4⅞-3	\$8½-



GROSS REVENUE BY
SALES CATEGORY, 1974



GROSS SALES BY
GEOGRAPHICAL AREA, 1974



APPROXIMATE BREAKDOWN
OF GROSS SALES BY END
USE MARKET, 1974

These charts demonstrate graphically the very substantial diversification of our business, and

indicate the growing importance of the mining, petroleum and gas sector of our end-use markets.

Eight months
ended
December 31

Years ended April 30

1968	1968	1967	1966	1965
2,738,000	16,461,000	15,468,000	14,884,000	10,546,000
704,000	730,000	893,000	775,000	425,000
360,000	419,000	465,000	601,000	400,000
344,000	311,000	428,000	174,000	25,000
114,000	130,000	127,000	100,000	51,000
5,450,000	12,991,000	11,851,000	10,613,000	7,816,000
821,000	4,551,000	4,798,000	3,954,000	3,032,000
5,392,000	4,050,000	3,652,000	3,323,000	2,260,000

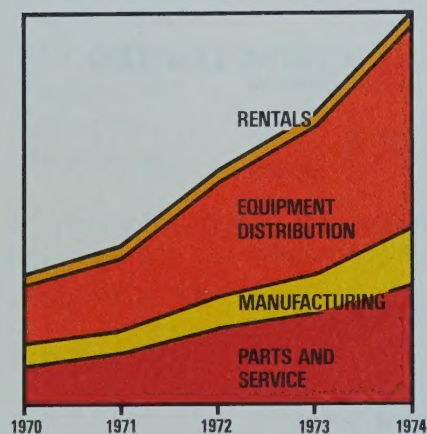
Note

1. Results for 1971 have been restated on the deferred tax accounting basis adopted in 1972.
2. Adjusted to reflect two-for-one stock splits in 1968 and 1972.
3. Per share earnings are based on the average number of shares outstanding during the year.
4. Because comparisons are not meaningful in respect of the eight month period resulting from the change in the financial year end in 1968, calculated data for this period have been omitted.
5. During the earlier years under review, income taxes were sharply reduced as a result of the carry-forward of previous losses. To maintain a valid basis for comparison, therefore, these percentages have been calculated on the pre-tax earnings rather than the net.

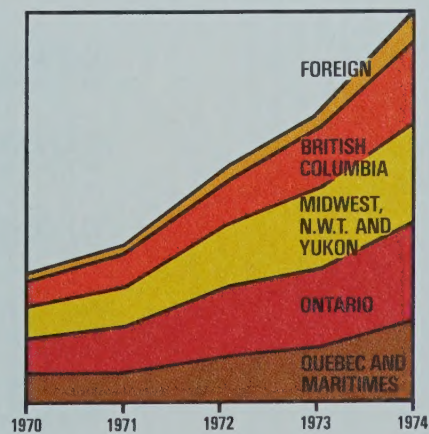
5.6	7.5	7.3	5.4
18.9	25.6	27.8	20.5
4.4	5.8	5.2	4.0
880,200	844,800	844,800	633,600

Note
4

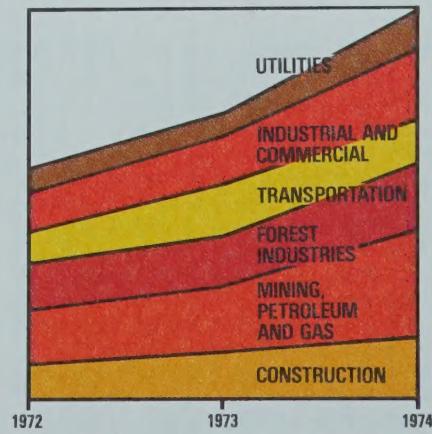
\$0.83	\$1.06	\$0.92	\$0.67
.48	.55	.71	.63
.15	.15	.125	.081
4.60	4.32	3.94	3.56
5.17	5.68	4.68	4.79
565	682	741	697
\$5-3	\$3¾-2½	\$3¾-3	\$4¾-3



**FIVE YEAR SALES
CATEGORY BREAKDOWN**



**FIVE YEAR
GEOGRAPHICAL BREAKDOWN**



**THREE YEAR
END USE MARKET BREAKDOWN**

The five-year and three-year records show that the growth of our total revenues has been reflected

generally in all sectors of the sales category, geographical and end-use market breakdowns.

Wajax Limited & Subsidiaries



WJAX INDUSTRIES LIMITED

11 Pettipas Drive, Dartmouth, Nova Scotia
 295 Joliette Street, Seven Islands, Quebec
 4165 Boulevard Hamel West, Quebec, Quebec
 6555 Cote de Liesse, Montreal, Quebec
 2114 Scott Street, Ottawa, Ontario
 7390 Woodbine Avenue, Toronto, Ontario
 163 Wicksteed Avenue, Toronto, Ontario
 1780 Midland Avenue, Toronto, Ontario
 425 Millen Road, Hamilton, Ontario
 1260 Brookes Street, North Bay, Ontario
 1870 Ellice Avenue, Winnipeg, Manitoba
 Severn at Seal, Thompson, Manitoba
 8214 Fraser Avenue, Fort McMurray, Alberta
 6210 97th Street, Edmonton, Alberta
 5529 3rd Street, S.E., Calgary, Alberta
 1101 20th Avenue, N., Cranbrook, British Columbia
 2244 Nicholson, Prince George, British Columbia
 1441 Clark Drive, Vancouver, British Columbia
 320 Industrial Avenue, Vancouver, British Columbia
 656 Pine Street, Nanaimo, British Columbia

WJAX INTERNATIONAL LIMITED

32 Progress Avenue, Toronto, Ontario

WJAX MANUFACTURING LIMITED

6517 Cote de Liesse, Montreal, Quebec

NIEDNER LIMITED

190 Cutting Street, Coaticook, Quebec

NIEDNER'S COMPANY INC.

65 Clinton Street, Malden, Massachusetts

PACIFIC PUMPERS INC.

227 Andover Park East, Seattle, Washington

WILCO FIRE EQUIPMENT CO.

730 S.E. Powell, Portland, Oregon

SMITH BROS. MOTOR BODIES LIMITED

7400 Woodbine Avenue, Toronto, Ontario

WATEROUS GM DIESEL LIMITED

10025 51st Avenue, Edmonton, Alberta
 7850 Blackfoot Trail, Calgary, Alberta
 10906 97th Avenue, Grande Prairie, Alberta

Operations, Division & Staff Managers

WAJAX LIMITED

R. H. Godfrey, Market Administration
K. S. Newman, Internal Controller

WAJAX INDUSTRIES LIMITED

J. A. Crawford, Vice President, Eastern Operations
W. F. Barr, Vice President, Western Operations
G. R. Donaldson, Western Region
J. E. Matthews, Mid-West
H. R. Decaire, Engineered Products
G. D. Kennedy, Milling
H. D. Stevenson, Mining & Woodlands, Western
M. H. O'Neill, Controller, Eastern
G. E. Edwards, Controller, Western

Branches:

Dartmouth
Seven Islands, Que.
Quebec, Que.
Montreal, Que.

P. Yaccato
E. W. MacEachern
M. Villemure
J. M. Berthiaume
R. N. Deslauriers
H. H. Henley
V. R. Lang
D. J. Stewart
J. P. Vinet
R. T. Wade

Ottawa, Ont.
Toronto, Ont.

C. Koneczny
G. Allen
G. Church
G. A. Cunningham
R. Howard
T. Kalis
A. Klus
D. Russell
B. Vidler
A. J. Wilson

Hamilton, Ont.
North Bay, Ont.
Winnipeg, Man.
Thompson, Man.
Calgary, Alta.
Edmonton, Alta.

Fort McMurray, Alta.
Cranbrook, B.C.
Prince George, B.C.

W. Pearce
G. W. Shipley
J. E. Matthews
R. D. Johannesen
K. E. Perry
K. F. Peters
R. A. Sayer
D. Macdonald
K. Barlow
D. Robertson
W. Geisler

Vancouver, B.C.

G. L. Goodman
R. Hammersley
R. Johnson
R. L. McMillan
M. B. Steele

Nanaimo, B.C.

J. Hodgson

WATEROUS GM DIESEL LIMITED

Ian Robertson, President & General Manager
A. Zygun, Vice President, Sales
S. T. Kendrick, Vice President, Parts & Service
C. T. Bezo, Treasurer

Branches:

Calgary, Alta.
Grande Prairie, Alta.

Fort McMurray

A. Schultz
M. Rorem
A. Harmsen
P. Campbell

SMITH BROS. MOTOR BODIES LIMITED

R. G. Willox, President & General Manager
G. H. Good, Vice President, Engineering & Development
R. A. Brown, Vice President, Marketing
R. Jones, Director of Manufacturing
H. H. Erickson, Controller

WAJAX MANUFACTURING LIMITED

D. B. Turner, General Manager
R. Davies, Sales
P. Czaharyn, Controller

NIEDNER LIMITED

S. M. Petruszewicz, President & General Manager
G. W. Laming, Vice President
H. G. Edwards, Manufacturing

WAJAX INTERNATIONAL LIMITED

G. A. A. Hunter, Vice President
J. C. E. Luard, Sales

PACIFIC PUMPERS INC.

E. J. Engelhardt, Vice President
S. A. Welsh

WILCO FIRE EQUIPMENT CO.

C. H. Stratton, Vice President

NIEDNER'S COMPANY INC.

T. R. Coleman, General Manager



